

## RESEARCH ARTICLE

# In Search of Debt Free Economic Development: The Role of Zakah and Awqaf Funds

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## Abstract

Most Islamic countries today have a large amount of external debt or public borrowing. The specific reason for public borrowing is that most Islamic countries still need enormous financial resources for building economic infrastructure in order to alleviate poverty. However, in spite of huge amounts of public sector expenditure financed through borrowing, most of these countries have not been able to alleviate poverty at all. The majority of the population in these countries are suffering an extremely low literacy rate and they are living in underdeveloped rural areas with extremely limited transport facilities, severely deficient health care facilities, very serious housing problems and no civic facilities, such as a lack of safe drinking water, electricity, sewerage systems etc. This would seem to indicate that external debt does not play a role in enhancing economic development. As a result, large external debts have become a severe chronic problem in these countries. In an attempt to overcome the large external debt problem, this paper suggests that these countries use internal funds, such as zakah and awqaf funds to accelerate economic growth.

**Keywords:** *Awqaf, Economic development, Poverty reduction, Public expenditure, Zakah.*

## Introduction

The traditional Keynesian theory implies that an increase in government spending can create an increase in consumption and aggregate demand. This theory makes expansionary fiscal policy (an increase in government spending) attractive to those who believe in government intervention to improve the economy. However, some countries are facing a shortage of government revenue to finance government spending. Therefore, such governments have to borrow from abroad in order to spend. This also occurs in most Islamic countries and the specific reason for public borrowing is that most Islamic countries still have an enormous need for expansion of their economic infrastructure and to alleviate poverty. However, after decades of large amounts of government spending, most of these countries still have not been able to build viable physical and human infrastructures. Most of these countries have yet to develop good railway facilities, good roads, good schools and adequate health care facilities. The rate of literacy among the population in these countries is extremely low and the majority of the population are living in underdeveloped rural areas with very serious housing problems, severely deficient health care facilities, extremely limited transport facilities and inadequate civic

facilities (no safe drinking water, electricity, sewerage etc.). These countries have also not been able to provide sufficient energy for industrial and domestic requirements.

One of the reasons why this transpires is that the debt repayment amount far exceeds the amount received. To give an example, according to the Jubilee Debt Campaign in 2005 developing countries paid a combined 513.8 billion USD in debt repayments, while in the same year they received a total of 106.8 billion USD in official aid. The very poorest of them paid a joint 43.2 billion USD in debt repayments, while they received a combined 40.4 billion USD in development aid. This means that despite significant amounts in aid, the net result is that the countries end up poorer every year because the poor countries are paying significant percentages of their GDP in servicing their debts. Thus money cannot be invested in other sectors such as education, health and research and development which are the key means to support the efforts of a country to escape from poverty. Consequently, poor countries are often forced into taking out new loans just to service the old ones. So, they are trapped in a vicious circle of debt. In the year 2009, the ratio of

external debt to GDP was more than 100 per cent in some countries, for example Guinea-Bissau, Kazakhstan and Somalia. Table 1 shows the percentage of external debt to GDP in Islamic countries for the period of 2001 to 2011. This study raises two questions. First, can government intervention through debt financing accelerate economic growth, and second, how can internal funds such as zakah, awqaf and sadaqah be used to accelerate economic growth?

To answer the first question, some related studies are reviewed. According to studies undertaken by several researchers, external debt is not favourable. Deficit financing is a dangerous policy except in a very limited way, for example, to mobilize untapped resources by increasing aggregate demand through government expenditure, and only if the expected rate of social return from the project is financed through borrowing is higher than the cost of obtaining the resource [1]. Furthermore, according to Munawar Iqbal [1], the big government philosophy is seriously flawed. The experience of many developed countries shows that economies have not become more stable because of governmental intervention; income distribution has not improved and the rate of growth has not accelerated because of the larger government involvement.

Economic historians state that the period between 1870 and 1913 was one of the most dynamic periods for the economies of the modern world. The rate of growth was very high, and modern infrastructure such as railways, roads and schools

was built. Yet the level of public spending was remarkably low (10 per cent of the national income). This percentage raises doubts about the necessity for high levels of public expenditure in promoting economic growth. Furthermore, from the Islamic viewpoint, the permissibility of public borrowing depends on certain conditions and circumstances, only for example, for military service to defend the ummah. The improvement of the material conditions of living and other public interests of a beneficial nature should not be financed by borrowing. In addition, the message of the Quran is very clear that the size of the government should be limited to what it collects through the zakah (the only taxation in Islam).

Since government intervention through debt financing cannot accelerate economic growth, and zakah is the only source of government revenue, these governments have only one choice but to fully utilise internal funds such as zakah, awqaf and sadaqah. However, the question becomes as to how these internal sources of funds can be used to accelerate economic growth. This is the second question raised by this study. Before answering the second question, this study will briefly discuss the definition of poverty, zakah and waqf. The rest of this paper is organized as follows. Section two discusses the definition of poverty, zakah and waqf. Section three discusses the concept of economic development in Islam, section four discusses the role of zakah and awqaf in economic development and section five concludes the paper.

**Table 1: Debt GDP ratio in Islamic countries for the period 2001-2011**

Countries	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	n.a.	n.a.	n.a.	n.a.	n.a.	11.4	19.5	19.4	18.1	15.1	13.8
Albania	26.9	25.2	26.1	21.2	25.1	27.1	27.0	30.4	38.9	40.8	45.7
Algeria	40.9	40.1	34.6	26.0	16.3	4.9	4.3	3.4	3.8	4.5	3.0
Azerbaijan	22.4	23.7	23.7	22.5	15.4	12.3	10.9	8.8	11.3	13.6	13.3
Bangladesh	32.7	35.1	35.4	35.0	31.9	33.2	31.0	28.8	26.7	25.8	25.5
Benin	58.4	56.9	41.4	39.5	35.3	13.7	13.9	13.8	16.3	19.6	19.5
Burkina Faso	53.5	47.6	40.0	39.6	36.8	19.5	21.5	20.6	22.5	24.6	23.9
Cameroon	98.8	90.6	79.9	65.3	43.8	18.1	14.7	11.6	13.3	13.5	11.6
Chad	63.6	63.7	56.1	37.2	27.0	27.1	25.6	20.9	25.5	20.4	17.4
Comoros	112.2	109.3	90.3	84.8	75.4	73.6	62.8	53.2	52.7	51.6	45.6
Cote d'Ivoire	107.9	102.5	88.6	84.1	72.8	70.3	70.0	53.7	50.8	47.0	49.6

Countries	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Djibouti	45.2	55.4	62.4	62.9	57.3	60.2	82.8	81.7	80.9	67.4	59.8
Egypt	29.8	32.7	39.4	37.8	30.8	27.3	25.8	20.3	17.7	16.9	15.1
Gabon	68.1	66.1	57.7	52.4	41.0	41.8	24.1	14.6	18.9	13.6	11.9
Gambia	71.0	99.7	124.9	127.9	106.4	105.4	88.3	43.7	56.2	53.2	38.1
Guinea	96.3	101.7	92.4	85.7	98.7	108.0	74.7	81.4	61.8	59.9	56.5
Guinea-Bissau	228.7	232.9	228.0	211.3	176.8	179.1	155.3	128.6	133.4	138.2	131.0
Guyana	115.3	118.5	120.9	108.5	92.4	78.2	42.3	43.1	50.6	65.7	71.6
Indonesia	82.3	65.3	56.8	53.4	47.0	34.4	31.0	28.6	29.2	27.6	25.2
Iran	6.6	6.4	11.5	12.3	10.6	8.0	6.8	3.8	3.7	4.7	3.6
Jordan	83.9	84.6	81.8	70.7	61.1	55.0	49.2	29.0	26.4	63.3	61.1
Kazakhstan	67.2	73.0	73.8	76.0	76.1	89.4	91.1	80.4	100.7	80.5	66.7
Kyrgyzstan	112.5	115.3	105.3	95.4	82.4	83.7	65.8	48.0	63.3	85.8	92.7
Lebanon	75.6	94.2	98.5	107.7	106.7	111.9	102.3	81.2	72.0	66.2	63.4
Malaysia	48.6	47.9	44.1	41.8	37.7	35.1	33.1	29.9	34.7	34.5	32.8
Maldives	37.6	42.4	42.6	47.1	52.3	53.3	56.3	60.3	61.0	48.5	47.9
Mali	96.4	88.7	73.8	66.9	59.4	27.1	27.9	24.3	30.2	26.2	27.6
Mauritania	212.7	197.9	183.1	156.3	132.4	62.7	63.8	59.6	71.2	81.0	60.9
Morocco	49.8	44.5	36.5	29.6	27.2	27.1	27.3	23.4	26.2	28.9	28.9
Mozambique	119.9	120.2	83.8	79.5	64.0	38.1	36.9	35.0	43.5	40.6	31.9
Niger	86.1	86.1	80.5	69.6	59.9	22.7	21.6	17.3	18.9	22.4	22.1
Nigeria	70.3	51.6	51.2	43.0	19.6	5.2	5.2	5.4	4.5	n.a.	n.a.
Pakistan	46.6	45.0	42.4	36.7	30.5	28.6	28.6	33.2	33.5	33.6	28.8
Senegal	75.2	76.8	63.8	48.8	44.2	20.4	22.6	21.3	27.5	30.4	29.9
Sierra Leone	102.7	103.3	106.6	114.8	103.3	76.9	16.0	18.5	19.9	36.7	36.2
Somalia	196.7	220.5	187.1	143.5	118.8	118.7	118.6	113.4	147.8	284.3	285.8
Sudan	97.2	88.6	80.4	68.3	49.4	40.1	33.9	31.8	36.5	31.9	n.a.
Syria	100.1	92.1	91.7	77.3	19.5	16.8	14.0	10.8	9.7	8.7	7.7
Tajikistan	97.9	93.5	73.9	50.0	45.9	39.8	40.8	74.5	50.5	54.6	50.9
Togo	105.6	107.6	102.3	94.2	79.5	80.5	77.7	51.7	51.7	39.1	17.4
Tunisia	64.5	73.4	73.5	69.0	61.4	59.9	57.4	50.7	54.9	49.8	48.2
Turkey	57.5	55.6	47.5	40.7	34.1	36.8	36.5	36.1	40.9	41.0	39.6
Turkmenistan	45.3	36.4	28.6	21.8	12.2	8.3	5.7	4.1	3.3	2.6	1.7
Uganda	58.3	59.7	64.3	56.2	44.0	11.4	11.9	13.6	14.6	18.4	20.0
Uzbekistan	52.2	48.6	48.5	40.1	31.1	23.6	17.5	15.5	12.5	19.8	18.4
Yemen	50.0	47.2	44.4	38.7	30.4	27.0	25.7	21.8	23.6	23.0	20.3

## Definition of Poverty, Zakah and Waqf

The most common method of measuring poverty in conventional economics is by income or consumption. A person in a particular country is considered poor if his/her income or consumption level is below the poverty line which is fixed by the government in that particular country. The poverty line is defined as the income or expenditure level required to purchase a predefined basket goods and services needed for basic needs. This poverty line is an income level that can sustain a minimum standard of living and separates the poor from the non-poor. In Islam, the concept of poverty does not only represent deprivation of goods and services, but also poverty in spirit. Keeping this broader concept of poverty in Islam in mind, this concept of poverty and its alleviation indirectly addresses the spiritual aspects with the consideration of individuals who can improve their material life by improving their spiritual life.

Islam discourages extreme poverty and income inequality. Each individual is expected to exert his/her effort to the fullest extent of his potential to fulfil his/her needs. However, there may be situations and circumstances in which individuals will not be able to earn enough money to meet their needs. Islam has instituted a social support mechanism to support the deprived in the form of zakah. The Quran says "And those in whose wealth there is recognized right. For the beggar who asks, and for the unlucky who has lost his wealth". All Islamic jurists agree that the government is responsible for the implementation of zakah in a Muslim society and is responsible to check if individual payers are actually paying zakah on apparent and non-apparent properties.

Zakah means to grow, to purify and to increase. When it is said about a person, it means to improve, to become better. Consequently, zakah means blessing, growth, cleanliness, purification or betterment [2,3]. Zakah is often seen as a means of purifying the wealth acquired by the giver as well as purifying the giver themselves by making them more sensitive to the needs of others [4]. Under Islamic law, the word zakah refers to the determined share of wealth prescribed by Allah to be distributed among the categories of those entitled to receive it. It is a compulsory payment by the wealthy to the economically underprivileged. In this way, the primary purpose of zakah is to purify the giver, a consequence of which is aiding those who are less fortunate. As

zakah is an obligation, some scholars argue that it should not be interpreted as a form of charity, but

rather as a right of the poor. While protecting the rights of the poor with the main objective of zakah to alleviate poverty, zakah also is a unique spiritually charged filtering device primarily designed to cleanse one's possessions or wealth necessary to protect the owners of wealth against spiritual poverty.

Zakah is defined in Fiqh as "a due right on specific items of assets/properties, in specific percentages with consideration of the passage of a year and satisfaction of the condition of nisab." Various schools of Islamic jurisprudence maintain that zakah is compulsory on properties that fulfil certain conditions. Furthermore, the concept of tamlik (ownership) is an important aspect of owning what is disbursed so that the recipient enjoys the full authority to use it at her/his free will.

Most of the items that are subject to zakah are mentioned in the texts of the Quran and the Hadith. These include gold and silver (the two monies at the time), herds of camels, sheep and cows, goods readied for sale, and agricultural products. Islamic jurists (Fuqaha) classify zakatable items as apparent and non-apparent assets. The apparent assets (*amwal zahirah*) are those that can be easily observed and includes agricultural products and livestock. The non-apparent assets/goods (*amwal batinah*) are not readily observable by outsiders. Goods for trade and cash fall under this category.

Eight categories of heads to whom zakah can be paid, saying: Sadaqat (here means zakah) are only for the fuqara (poor), and miskin (the needy), and those employed to collect (the funds), and to attract the hearts of those who have been inclined (towards Islam), and to free the captives, and for those in debt, and for the All-knower, All-wise." Other verses and sayings of the Prophet (pbuh) added those who are destitute, orphans, and prisoners of war to the heads of zakah. While no strict definition of poverty appears in shariah to categorize persons eligible to receive zakah, it is agreed upon that it is not meant for the rich. This is evident from the following hadith which says "the sadaqah (zakah) is not lawful to a rich or strong, non-defected (non-handicapped) person."

Waqf on the other hand, is a voluntary act of charity that comes under the general terms of sadaqah and infaq. Linguistically, waqf means stand still, hold still, not to let go. On the other

hand, waqf is a form of endowment of a resource in perpetuity. It can be performed on behalf of someone who has passed away, usually for public

good. The purpose of a waqf is set by the endower and should only be changed in accordance with his or her will [5]. The word waqf is used in Islamic law with the meaning of holding certain property and preserving it for the confined benefit of certain types of philanthropy and prohibiting any use or disposition of it outside its specific objective [6].

From the shariah point of view, waqf is defined as holding a maal (an asset) and preventing its consumption so as to provide for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness/philanthropy. Hence, waqf is a continuously usufruct-giving asset as long as its principal is preserved. Preservation of the principal may result from its own nature as in land or from arrangements and conditions as prescribed by the waqf founder [6].

From the economic point of view, waqf is diverting funds (and other resources) from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups of individuals. This definition of waqf allows inclusions of all kinds of maal (asset) under waqf, so that land and construction can be made waqf for religious purposes, such as a mosque for prayers, for philanthropic purposes such as a hospital, an orphanage or a school. Land and construction may also be made waqf for agricultural utilization or for any other productive utilization in industry and urban areas provided that the net revenues are exclusively devoted for nourishing philanthropy/righteousness causes, such as spending on light and heat for a mosque, on feeding the poor and needy or on the current expenses of a hospital, a school or an orphanage.

An important characteristic of waqf relates to its objective, which means doing charity out of good intention. This implies that a waqf for bad or immoral objectives is not recognized. The objective of waqf may be for the society at large, including the provision of religious services, socio-economic relief to the poor, and other purposes. This kind of waqf is traditionally characterized as philanthropic or public. It aims at supporting the poor segment of the society and all activities that are of interest to people at large such as public utilities, libraries, scientific research, education, health services, care of animals and the

environment, lending to small businessmen, parks, roads, bridges, dams etc. In case of a family (ahli) or private (khass) waqf, the objective is

related to the family and descendants of the founder or another specific person. A combined/mixed waqf (waqf mushtarak) has dual objectives of serving partly the family/descendants and partly the public.

Many scholars term the ownership of waqf assets/properties "as if it were owned by God". The founder (waqif) determines the objectives for which the waqf property can be used and the way its fruits, services and revenues can be distributed. The founder also determines the waqf management and the procedure governing the succession of managers. The organizational structure of waqf is flexible because it is essentially in the hands of the founder, who can mould it the way it pleases her/him. A waqf manager is usually called a Mutawali, Nazir or Qayyim and his/her responsibility is to administer the waqf property in the best interests of the beneficiaries. The first duty of a Mutawali is to preserve the property; this is followed by maximization of the revenues of the beneficiaries.

## The Concept of Development in Islam

Development or economic development should be consistent with the central objective of shariah: the welfare of the people and their relief from hardship. Economic development in Islam may be defined as a balanced and sustained improvement in the material and non-material well-being of man, and development as a multi-dimensional process which involves improvement of human welfare through advancement, reorganization and the reorientation of entire economic and social systems in accordance with the norms and values of Islam. In this context, the author would like to emphasize the concept of a two stage permanent life of human beings. The life of mankind consists of two sequential stages: the worldly life (from birth until death) which is temporary, and the life of the hereafter (that begins after death) which is eternal and permanent. Thus, human life per se is one complete whole which is eternal, even though divided into two stages. Islam desires the welfare of mankind for this complete whole. In functional form:

$$W = f_1 (W_t, W_p) \quad (1)$$

Human welfare,  $W$ , is thus a function of welfare in both the temporary stage,  $W_t$  and that in the permanent stage,  $W_p$  of life. Here,  $W_t$  and  $W_p$  are again functions of separate sets of variables which

determine welfare in the temporary and permanent stages of life respectively. The functions are as follows:

$$W_t = f_2 (X_t, SED, ED, HD, Y_t) \quad (2)$$

where  $X_t$  stands for a variable related to economic development (e.g. political freedom, income equality, education, training, health, environmental peace and harmony and the like), SED stands for sources of economic development (e.g. zakat, sadaqah, awqaf), ED stands for economic development (wealth, income and the like), HD stands for human development (skill, healthy, educated, spirituality and the like),  $Y_t$  stands for a variable unrelated to economic development but responsible for the welfare in the temporary stage of life (e.g. satisfaction derived from human accomplishment in this world like philanthropic contribution, sadaqah, waqf etc., compassion in human relationships and the like).

$$W_p = f_3 (Y_p, ED, SD) \quad (3)$$

where  $Y_p$  stands for a variable unrelated to economic development but responsible for the welfare in the permanent stage of life (e.g. ibadah), ED stands for economic development (economic development still contributes to the welfare in the permanent stage of life because more income or more wealth can contribute to more zakah, sadaqah and waqf), and SD stands for spiritual development. These formulations show that economic development is a common argument in both the individual welfare functions,  $W_t$  and  $W_p$  which implies that economic development is an explanatory variable in the overall welfare function,  $W$ . In other words, economic development has an important role to play in the achievement of welfare at both stages of human life. Economic development is a function of sources of economic development (SED), human development (HD) and variables related to economic development (e.g. political freedom, income equality, education, training, health, environmental peace and harmony and the like), ( $X_t$ ). In functional form:

$$ED = f_4 (SED, HD, X_t) \quad (4)$$

The uniqueness of the Islamic concept of economic development is that the terminology incorporates within it the welfare elements in both stages of human life. The welfare of these two stages is so related that  $W_p$  cannot alone maximize  $W$ , if  $W_t$  is zero or negative. Since the permanent stage (life of the hereafter) is definitely longer than the temporary one,  $W$  can never be maximized by

sacrificing a major and significant portion of  $W_p$ . There may, however, arise a trade-off problem: an increase in  $W_t$  may involve a decrease in  $W_p$  and vice versa. In such a situation the individual

concerned may choose an appropriate combination of  $W_t$  and  $W_p$  on the basis of the weight of arguments in the objective function. An individual with preference for  $W_p$  is expected to maximize  $W$  subject to the constraint of some minimum value of  $W_t$ . An individual at the other extreme may prefer to maximize the  $W$  subject to the constraint of a minimum scale of  $W_p$ . A conscientious person with knowledge and practice of Islam may make his/her whole life as Ibadah by adhering strictly to the norms of Islam in all activities of life. So,  $W_t$  and  $W_p$  reinforce each other instead of creating a trade-off problem. The strength of such reinforcement depends, however, on the degree of such conscientiousness exhibited by different persons.

Economic development related to Islam is that which contributes to welfare in both stages of human life. Economic development is related to Islamic values in two ways. First, economic development has been defined as a balanced and sustained improvement in the material and non-material well-being of man which is not complete without a high moral standard resulting from Islamic values. Second, the establishment of Islamic values requires spending on Islamic education, propagation of Islam and so on. This spending is expected to be positively related to income level and the strength of one's Iman (belief).

### The Role of Zakah and Awqaf in Economic Development

The message of the Quran is very clear, specifically in mentioning that the size of the government sector should be limited to what it collects through zakah, the only tax in Islam. All Islamic jurists agree that the government is responsible for the implementation of zakah in a Muslim society. In Malaysia, there is a specific body (a Religious Council in every state) that is responsible for collecting and distributing zakah and to manage awqaf funds. If zakah and awqaf funds are properly managed, these funds could replace external borrowing and therefore significantly reduce the debt burden. So, the Government body or the Religious Council in every state should be creative, innovative and expert in business in order to fully utilize the zakah and awqaf funds to accelerate economic

development and at the same time to improve the welfare of individuals.

Zakah is one of the important instruments to increase the welfare of individuals both in the temporary and permanent stages of their life.

Economically, zakah is one of the important instruments to increase the wealth of the poor. Zakah aims at eliminating poverty and the desire for personal accumulation at any cost, and encourages socially orientated behaviour. It aims for the reduction of socio-economic differences by providing financial help to the 'have-nots' to bring them closer to the 'haves'. This can be done in two ways. First, the person capable of working will be given what he/she needs to become a productive earner so that he/she can earn an income that satisfies his/her basic needs. This may include education, training and capital to start a business. The distribution of zakah in the form of education, training and capital goods, (such as a taxi, sewing machine etc.) not only enriches the poor and makes them productive elements in society, but also encourages entrepreneurship and increases the supply of entrepreneurs. This effect is further enhanced by the overall zakah system which provides a social security type of arrangement that stimulates new business ventures. This increases employment and productivity.

Second, the unproductive members of society such as the elderly, sick, widows, the handicapped etc., will be provided periodic income to support them to afford consumption of their basic needs. Therefore, zakah increases the demand for goods which fulfils the basic needs of the poor. Hence, zakah also influences investment because the multiplier effect which results from a rise in aggregate consumption which increases investment.

Investment can be more attractive if there are sufficient economic infrastructures or facilities provided by the government. The provision of economic infrastructure can be done using awqaf funds. As mentioned earlier, the person who manages awqaf (mutawali) has to be very creative in the generation of income or profit from awqaf properties. The profit generated can be used to provide infrastructure or facilities to attract more investors. Furthermore, it can also help the poor by providing them capital to start a business and to obtain education and training to become more productive. By assuming that the efficiency problems are solved, the waqf system can significantly contribute towards that ultimate

goal of every modern economist; massive reduction in government expenditure which leads to a reduction in the budget deficit, which lowers the need for government borrowing.

From the point of view of Islamic economies, the most important item in the above mentioned

agenda is, obviously, the reduction in the government debt. The waqf can, indeed, lower the debt and debt repayment by providing the most essential social services without any cost to the government. This important contribution of the waqf system towards the gradual elimination of debt is not yet recognized by Islamic economists. It is proposed here that it should be. Put differently, a re-establishment and revitalization of the waqf system should be considered as a vital step in the struggle to eliminate debt.

The waqf system could fulfil those functions by voluntary donations made by the rich. Thus, privately accumulated capital may be voluntarily endowed to finance all sorts of social services for society. At this point another extremely important function of the awqaf becomes apparent: not only does it help to reduce government expenditure and consequently the debt, it also achieves another modern economic goal; a better distribution of income in the economy and increases the welfare of individuals in the temporary and permanent stages of their life.

In the concept of development in Islam as discussed above, zakah and awqaf improve the welfare of the people in the temporary and permanent stages of life, (Wp and Wt) for either the rich or the poor. For the rich, zakah not only purifies their wealth but also purifies them themselves by making them more sensitive to the needs of others. It also improves the strength of their Iman (belief) to become more pious or a better person. It is expected that there is a positive relationship between zakah and the strength of one's Iman. Further, it is expected that waqaf is also positively related to the strength of one's Iman. As people become more sensitive to the needs of others, they will be more willing to pay zakah and sadaqah (waqaf) and their welfare will be improved both in the temporary life and also in the permanent life. As more people pay zakah, the amount of zakah collection becomes larger. Similarly for the waqaf, as more people contribute to waqaf or more properties are allocated for waqaf, the funds become larger and larger. The larger funds will be spent to provide income and improve services for the poor and the welfare of the poor in their

temporary and permanent life. Based on the positive relationship between zakah and awqaf and the strength of one's Iman, it is expected that the strength of their Iman will be improved as well. In this case, zakah and waqf funds not only alleviate material poverty but also spiritual poverty as well. Zakah and waqaf also generate a

situation of a good relationship between the rich and the poor. They will live in a society that is full of peace and harmony and this again will improve their welfare. Figure 1 shows the role of zakah and awqaf in economic development in line with the concept of development in Islam [7-18].

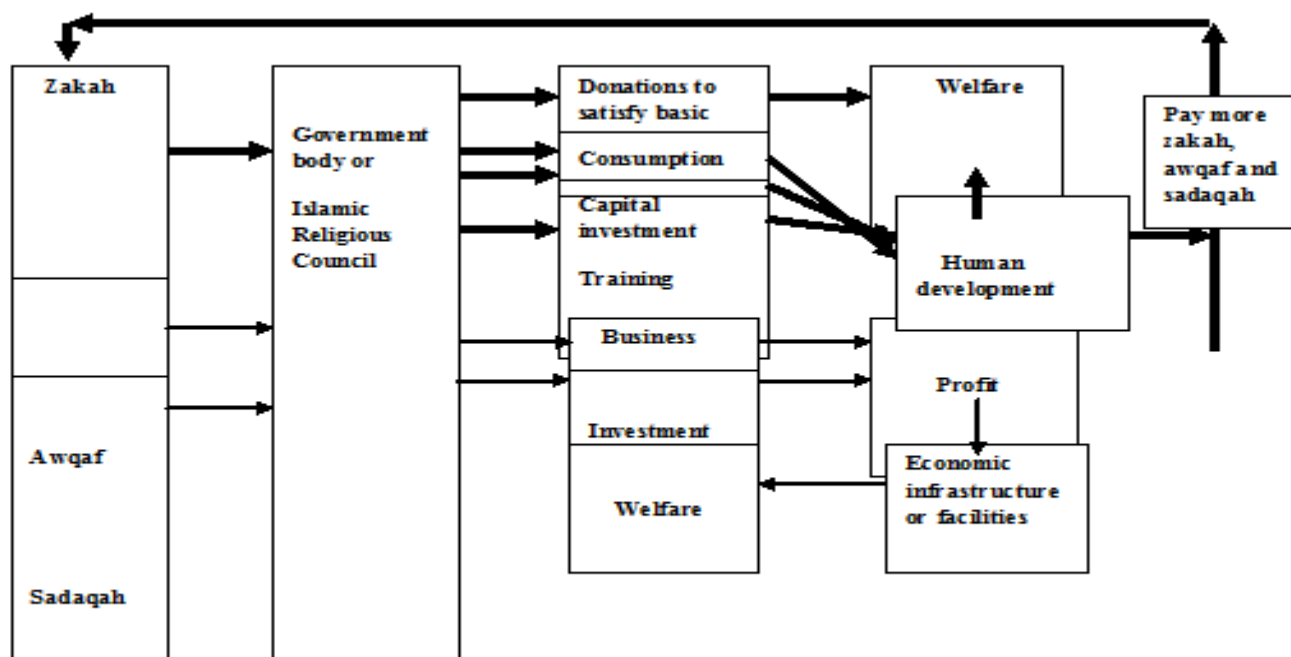


Fig. 1: The role of zakah and awqaf in economic development

## Conclusion

Muslim countries have relied extensively on external borrowing to fill the gap in the public budget. As a result, external debt has grown and debt repayment has become a big problem to these countries as they have to pay interest. Besides other problems, interest payments eat a sizeable part of total government expenditure. In Islamic countries, this is most unfortunate. In addition to the economic problems that this public debt creates for these countries, they are in violation of Islamic shariah. As a matter of fact, a number of their economic problems are a direct

result of ignoring the Islamic shariah. Government expenditure should be limited to what it collects through zakah, awqaf and sadaqah. Zakah and awqaf do not only contribute to economic development or poverty alleviation but also contribute to human development through the eradication of spiritual poverty and provide the achievement of welfare in both stages of human life [7-18].

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